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How Low-Paid Employees Avoid Poverty: An Analysis by Family Type and Household Structure

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Abstract

The risk of poverty is very unevenly distributed in society. Some groups – unemployed people, lone parents, large families, people with disabilities, and some ethnic groups – have much higher poverty rates than average. Some events – losing a job, marital breakdown, having children – also put people at high risk of poverty. But being in a high-risk group does not necessarily mean you will be poor, nor does experiencing an event with a high poverty risk attached to it. Some people *avoid* poverty, despite being in high-risk groups or facing high-risk events. This article focuses on one such group – low-paid workers – and explores whether and how people in low-paid jobs are able to avoid poverty. We consider three main options – own wages and in particular working long hours, living with other people and sharing income, and state transfers through the tax and benefit system – and compare these across different family and household types. The results highlight the importance of household living arrangements in protecting low-waged individuals against poverty.

Introduction

The risk of poverty is very unevenly distributed in society, with some groups having much higher poverty rates than average. In the UK today, those with the highest poverty risks include unemployed people, lone parents, large families, people with disabilities, and some ethnic groups (DWP, 2004; Flaherty *et al.*, 2004; Sutherland *et al.*, 2003). There are also certain events that carry a high risk of poverty, as research on poverty dynamics has shown (Jenkins and Rigg, 2001; Jenkins and Schluter, 2003; Taylor *et al.*, 2004). These include both socio-economic events (such as job loss through unemployment or sickness) and demographic events (such as the birth of a child or marital breakdown). However, being in a high-risk group does not necessarily mean you will be poor, nor does experiencing an event with a high poverty risk attached to it. Some people *avoid* poverty, despite being in high-risk groups or facing high-risk events. Taking a closer look at these people who avoid poverty, and how they do so, may thus provide a useful way of understanding how to protect people who may be vulnerable to poverty.

People in work are generally not in a high poverty risk group, and indeed those who move into work from unemployment often escape poverty at the same time. Recognition of the importance of paid work in combating poverty has thus been at the centre of the Labour government's anti-poverty strategy, and increasing employment participation rates has been an important policy goal. Over three-quarters of all working-age adults are now in full-time work and the number of people in employment has been growing steadily, by an average of 1.1 per cent per annum, since 1997 (Balls *et al.*, 2004: 25). But the labour market does not offer the same opportunities to all and there are many people in jobs that are low paid, insecure and with limited scope for advancement. The national minimum wage sets a floor for hourly wages, but many of those protected by the national minimum wage are not working full time, and low weekly hours mean low weekly wages. About 7.4 million people work in part-time jobs for fewer than 30 hours a week, including 2.5 million working fewer than 16 hours per week (Francesconi and Gosling, 2005). Some people in paid work are thus unlikely to be able to achieve an adequate weekly income from their wages alone, and are likely to be reliant on other sources of income to avoid falling into poverty. The analysis reported here sets out to examine whether and how workers with low hourly pay are able to avoid household poverty, and to explore the ways in which different sources of income play a role in this poverty avoidance, for different types of families and households.

There are several main ways in which an individual with hourly low pay might nevertheless avoid household poverty. Working long hours, either by overtime working or by having more than one job, is one possibility. This option is likely to be possible only for people who either have no caring responsibilities (such as single people), or for those who live with others who take the responsibility for caring (such as men in one-earner couples). Another option is to pool wages with other people living in the household, so two-earner couples may be able to avoid poverty, even if one or both are low paid. Households with three or more earners – a couple living with their working children, a lone parent living with her parents, a group of people sharing a flat – might also have a good chance of avoiding poverty. Finally, low-paid people may be able to avoid poverty by means of in-work state transfers – benefits and tax credits – which top up their wages.

The aim of our analysis is to explore the relative importance of these three main options – own wages, living with others, receiving state benefits and tax credits – in allowing low-paid people to avoid poverty. For this analysis, it is therefore necessary for us to divide household income into these component parts, and to look separately at each of these. This raises some complex methodological issues, both in respect of how the different income sources combine and in respect of the different units – individual, family, household – that we need to take into account. The next section discusses these points in more detail, with the results then reported in the main body of the article.

Poverty avoidance: individuals, families and households

In this study we are interested in identifying those who have avoided poverty, despite being in the potentially high-risk situation of working for low hourly pay. Thus we start with the low-paid individual, defined as someone earning less than two-thirds of the median hourly wage.[1] We then look at the total household income of that person and consider whether they live in a poor household or not. A poor household is defined as one with a total household income below 60 per cent of median equivalised disposable household income, before housing costs. To anticipate the results, discussed in more detail below, we find that the vast majority – 86 per cent – of low-paid people do not live in poor households (83 per cent of low-paid men and 87 per cent of low-paid women). Most studies of low pay and poverty stop at this point. They show the overlap between low pay and poverty, and identify which types of low-paid people are most at risk of living in poor households (for example, McKnight, 2002), but do not explore *how* some low-paid people avoid poverty while others do not.

Our approach (first developed in Millar *et al.*, 1997) is to divide household income into various separate components and then add these up, one by one. As each income source is added in, we calculate whether this is enough total income to take the household over the poverty line. Thus, for example, if an individual has wages that are high enough to take the whole household over the poverty line, then the household moves out of poverty at that first step. If not, then we move on to the next source of income and see if adding that in will take the household income over the poverty line, and so on. Some households are, of course, still in poverty after the final step. The method thus provides a way to examine both *whether* low-paid people can avoid poverty, and *how* they do so.

In order to do this, it is necessary to divide up household income and so we need to decide first how many and what components to use and second to decide the order in which to add these to the total. In the discussion above, we identified three main types of income – own individual income, the income of other people in the household and state transfers. However, such a three-fold division might obscure some interesting differences within these categories: for example, between social security benefits such as child benefit on the one hand and tax credits on the other. We therefore identify three types of state transfers: non-means-tested social security benefits, means-tested social security benefits and working families' and disabled person's tax credits.[2] Similarly, in looking at the income of other people in the household, we want to identify separately the contribution of a spouse or partner from that of other people in the household. We therefore divide the income contributed by other household members into partner's income and others' income. This gives us seven main categories of income: the individual's own market income, three types of state transfers, market income from partners, market income from other people and any other household income.

The next issue is to decide the order in which these sources of income should be added up in order to create a cumulative total, and to identify at what point household income crosses the poverty line. The order we use is as follows:

own market income,
market income of a partner,
non-means-tested social security benefits,
tax credits,
means-tested social security benefits,
the market incomes of other household members, and
other household income.

This order thus starts with own market income (which includes wages, self-employment and investment income) and then market income of partners and the various state transfers, before including market income from others living in the household and finally including any household income that cannot be readily attributed to particular individuals. This sequence is designed to reflect what we know – which is still quite limited – about how people perceive and value different sources of income and about the ways in which people living together pool their incomes. Various studies have shown that most people prefer to increase their incomes by additional work – second jobs or second earners – rather than by receipt of tax credits or benefits (McLaughlin *et al.*, 1989; Jordan *et al.*, 1992; Kempson, 1996; Kempson *et al.*, 1996; Goode *et al.*, 1998). Therefore the earnings (and other market income) of self and a partner are placed first in the list. These studies also suggest that non-means-tested benefits are generally preferred to means-tested support, and this is also reflected in the ordering in the list. One of the government's main arguments for replacing family credit with a tax credit was that tax credits are less stigmatising and more acceptable than benefits (HM Treasury, 1998) and there is some evidence that families preferred the working families tax credit to family credit (McKay, 2002), although this may be more to do with the higher amounts than any intrinsic preference. Nevertheless, we have placed tax credits above other means-tested benefits in our sequence.

The income of other household members (adults other than a partner) is placed below benefits and tax credits, rather than next to partner's income. This is because they fall outside the individual's 'family' unit (defined as a single person, a single person with dependent children, a childless couple or a couple with dependent children), which is the basic unit for assessment of most social security benefits and tax credits. Entitlement to these state transfers therefore relates to the family unit rather than the household as a whole. The household as a whole could consist of one or more tax/benefit family units, and this would be the case even, for example, if the household consisted of people who were all family members in the sense of being closely related. Thus, for example, a lone mother living with her two children, one aged 12 and the other aged 19 would be living in a two family unit household: herself and her 12 year old child forming one unit, her 19 year old (and therefore non-dependent) child forming another. Similarly, a woman living with her husband and his elderly mother would be in a two family unit household: the couple as one unit and the mother as another. It makes sense therefore to consider all sources of income from the individual's own family unit first, before including income from another family unit.

In addition, placing the income of these others after the income of partners is intended to recognise the likelihood that such income may be less likely than partners' income to be shared by all household members. We know that not all couples, married or cohabiting, share all their income, and that household financial allocation and management systems reflect differences in characteristics and circumstances, including income, employment status, age and life-course position (Vogler and Pahl, 1993; Goode *et al.*, 1998; Rake and Jayatilaka, 2002), but there is very little information available about income-sharing within larger households comprising multiple family units. Young people living with their parents may or may not be making a direct financial contribution to the household income, but they are almost certainly benefiting from higher living standards than they could achieve if they lived alone in their own household. Lone parents can never be two-earner families but they can be two (or more) earner households, and the contribution of adult children may be a key factor in boosting household income and – to the extent that income is shared – living standards. Given that in most studies poverty is measured at the level of the household, the fact that we know so little about household income-sharing is perhaps a rather surprising gap in the literature.

Measuring income and poverty at the level of the household is based on the assumption that there is income-sharing within the whole household, and not just within the family unit. Thus, in a poor household all members are counted as poor, and in a non-poor household none is counted as poor. This may hide poverty within households, especially among women who are less likely than men to have adequate individual incomes (Bradshaw *et al.*, 2003; Millar, 2003). The income and poverty measures used in our analysis are also household based, so we are assuming equal income sharing, but our method allows us to separately identify the contribution of individual income, partner's and family income, and wider household income. Hence, our results indicate which findings are likely to be most sensitive to assumptions about equal income sharing, for example,

TABLE 1. Low pay by family type, % of employees who are low paid, UK 2000/1.

	Single, no children	Single, with children	Couple, no children	Couple, with children	All
Gender	%	%	%	%	%
Male	33	7	10	9	18
Female	35	27	26	29	30
All	34	25	18	18	23
Unweighted base	(1,531)	(207)	(1,890)	(2,045)	(5,673)

Source for all tables: own analysis of Family Expenditure Survey 2000/1 (Office for National Statistics, 2001) (subsequently called the Expenditure and Food Survey).

where the market income of adults other than a partner makes a big contribution to poverty avoidance.

To summarise, in order to identify those low-paid people who avoid household poverty, we calculate whether they earn enough by themselves to take their household out of poverty and then add in all other sources of household income in sequence, starting with partner's income, then state benefits and tax credits, the income of other household members, and finally all other household income. We then analyse the results by gender and by family type, in order to examine the extent to which there are differences in the way in which low-paid people in different circumstances avoid poverty. In addition to this analysis by gender and family type we also place the family within the wider household. This is something that is rarely done in the analysis of poverty rates, even though these are calculated on a household basis. By analysing household structure we intend to highlight that the family and the household units do not coincide in practice for many low-paid people, and hence this distinction is an important one.

Low pay and poverty

Before we present our results on poverty avoidance for low-paid employees, we begin with a summary of the relationship between low pay and poverty by family type. Table 1 shows which employees are at greatest risk of hourly low pay. Overall, in 2000/01 we calculate that 23 per cent of employees were low paid,[3] with substantially higher chances of low pay among female employees (30 per cent) than among males (18 per cent). At about one in three, the incidence of hourly low pay is noticeably higher for both men and women who are single without children than it is for other family types. All other male employees appear to have around a one in eleven risk of low pay, regardless of their family circumstances. Similarly, for all women workers who are either in a couple or single with children, their family type has little bearing on their chances of being low paid, which we estimate to be about one in four.

TABLE 2. Poverty rate by family type: all low-paid employees UK 2000/1.

	Single, no children	Single, with children	Couple, no children	Couple, with children	All
Gender	%	%	%	%	%
Male	14	*	11	37	17
Female	14	20	9	13	13
All	14	19	10	19	14
Unweighted base	(509)	(51)	(344)	(370)	(1,274)

TABLE 3. Avoiding poverty: all employees and low-paid employees, UK 2000/1.

	All employees	All low-paid employees
Avoiding poverty	%	%
Own market income	53	8
Partner's market income	21	32
Non means-tested benefits	5	8
Tax credits	1	2
Means-tested benefits	1	3
Others' income	13	30
Other household income	1	2
Remaining in poverty	5	14
Total	100	100
Unweighted base	(5,673)	(1,274)

Table 2 shows the poverty rates for all low-paid employees by gender and family type. Although women are more likely to be low paid than men, those women who are low paid are less likely to be living in poor households. Thus, 17 per cent of low-paid men are living in poverty, compared with 13 per cent of low-paid women. This pattern holds for all family types (although note that there are not enough lone fathers in the sample for separate analysis). Low-paid lone mothers have a very high risk of poverty (20 per cent); only low-paid men in couples with children are more likely to be poor (37 per cent).

Thus individual low pay translates into household poverty to a different degree for men and women and for different family types. In the main part of the analysis we explore what enables most low-paid people to avoid poverty and compare how this differs for people in different family circumstances.

Avoiding poverty

Here we start by putting results on poverty avoidance for low-paid employees in the context of findings for all employees, as presented in Table 3.[4] The most striking difference between these two groups is the importance of the individual's own market income in avoiding poverty. More than a half of all employees (53 per cent) have sufficient market income themselves to enable their entire household to avoid poverty. However, this is true for just 8 per cent of low-paid employees. This suggests that most employees who are paid a low hourly rate cannot compensate for this by working long hours. We find that 9 per cent of the low-paid workers are working 50 or more hours a week in their main job and 4 per cent have two or more jobs; these do not really differ from the equivalent statistics for all employees: 10 and 3 per cent respectively. Thus, for most low-paid people, working long weekly hours is not the way they can avoid poverty. However, other sources of household income do help to compensate for this large discrepancy, narrowing the gap between the proportions of all and low-paid employees who avoid poverty. When all sources of income are taken in to account, 5 per cent of employees remain poor compared with 14 per cent of the low-paid population.

As Table 3 shows, the income sources which are most significant in closing the gap in poverty rates between the low paid and all employees are the market income of other household members. Market income includes any earnings, self-employment and/or investment income, but for most people it is mainly earnings. Of all employees, 66 per cent are part of a couple and 51 per cent have a partner with some market income. Low-paid people are both less likely than all employees to have a partner (51 per cent) and less likely to have a partner with market income (42 per cent). However, partners are more important for avoiding poverty for the low paid than they are for the average employee, enabling nearly a third of low-paid workers and their households to avoid poverty (compared with 21 per cent of all employees).

Among the low paid, over half (53 per cent) have adults in the household other than partners, and they make almost as big a contribution to poverty avoidance as partners, with 30 per cent of the low paid escaping poverty due to the impact of others' income. We discuss the role of other adults in greater detail below, but living with adults other than a partner, such as grown-up children, parents or friends, is found to be common, even among the general working population. Of all employees, one third (34 per cent) are in this situation and others' market income is responsible for 13 per cent of them avoiding poverty, which is a larger impact than, for example, all state benefits and tax credits. Nevertheless, state transfers are, as would be expected, more important for low-paid workers in avoiding poverty (13 per cent) than they are for all employees (7 per cent).

Thus low-paid employees are very different from employees in general, not only in the extent to which they experience household poverty (being almost three times as likely to be poor), but also because they can rarely avoid poverty on the basis of their own wages alone. However, this picture of the strategies which low-paid employees use to avoid poverty masks some important variations by

TABLE 4. Avoiding poverty: low-paid single childless people, UK 2000/1.

	Men	Women
Avoiding poverty	%	%
Own market income	9	8
Partner's market income	0	0
Non means-tested benefits	7	9
Tax credits	0	1
Means-tested benefits	5	3
Others' income	62	59
Other household income	3	5
Remaining in poverty	14	14
Total	100	100
Unweighted base	(253)	(256)

sex and family type; it is these differences which we now go on to explore, looking in turn at each family type.

Single childless people

Single people without dependent children are the largest single group among the low paid, accounting for 45 per cent of all low-paid people, two-thirds (66 per cent) of low-paid men and one-third (32 per cent) of low-paid women. In most respects the findings on poverty avoidance for both single males and females, shown in Table 4, are similar to the average for all low-paid workers, including the proportions who remain poor (14 per cent of both men and women). Just less than a tenth have adequate weekly wages themselves to avoid poverty and those who do are probably working long hours and/or have multiple jobs. The single men are more likely than the women to be working long hours (8 per cent of the single men work 50 or more hours, including overtime, in their main job compared with 2 per cent of the women). But the single women have a greater tendency to take on more than one job (6 per cent versus 1 per cent).

One obvious difference for single people compared to the average low-paid employee is that they do not have access to a partner's market income to boost their household income. However, we find that this is almost exactly compensated for by the much greater impact of others' income for single people. This is the most likely way that low-paid single people avoid poverty, with around six in ten of both men and women avoiding poverty because of the contribution of others' incomes to the household. This reflects the fact that single low-paid people are highly likely to be living in a household with other adults – 86 per cent of single men and 82 per cent of single women do so – usually living with their parents. As discussed above, our analysis of poverty assumes that all income within the household is shared equally, which may be a more dubious assumption in the case of households with more than one family unit.

Benefits and tax credits play a relatively small role for single people, which is not surprising given that single people have not generally been targeted for in-work state support. However, the working tax credit introduced from April 2003 does extend eligibility to single people (and childless couples), so it is likely that these transfers will now be helping at least some single people to avoid in-work poverty. In December 2004 there were about 178,000 single people receiving the working tax credit, mainly (101,000) women (Inland Revenue, 2004).

TABLE 5. Avoiding poverty: low-paid couples without children, UK 2000/1.

	Men	Women
Avoiding poverty	%	%
Own market income	31	3
Partner's market income	40	71
Non means-tested benefits	9	10
Tax credits	0	0
Means-tested benefits	3	2
Others' income	6	5
Other household income	1	0
Remaining in poverty	11	9
Total	100	100
Unweighted base	(95)	(249)

Couples without children

Men and women in couples without dependent children make up 25 per cent of the low paid, one in six (17 per cent) of low-paid men and one in three (30 per cent) of low-paid women. As shown above (in Table 2), these low-paid workers are the least likely to be living in household poverty, with around nine in ten in non-poor households. Table 5 indicates that this is due to the large contribution to poverty avoidance from the combined individual's and partner's market income. Nearly a third of these low-paid men earn enough market income themselves to take their household above the poverty line. This probably reflects the much greater tendency of these men to work very long hours in their main job: 40 per cent are working for 50 or more hours a week. By contrast, just 3 per cent of low-paid women earn enough market income to take their households above the poverty line. These women rarely work long hours (only 4 per cent are working over 50 hours per week).

Turning to the impact of partner's market income on poverty avoidance, this is substantially larger for women in couples without children than for men (71 per cent compared to 40 per cent), even though more of the men have a partner who is also an employee (75 per cent compared to 67 per cent). The much greater contribution from the partners of women is likely to reflect two main issues. Firstly, low-paid women are less likely than low-paid men to have low-paid partners. Secondly, the market income of these women's partners includes significant amounts of occupational pensions and self-employment income, as well as earnings. While the influence of own and partner's market income on poverty avoidance is rather different for men and women, the combined effect is similar across the genders.

Despite low-paid childless people in couples having a high chance of avoiding poverty due to their own or partner's market income, they generally get rather little help from other adults in the household. They are less likely to live with other adults and, for the 30 per cent of them who do, these tend to be their grown-up children whose income is clearly not enough to make much of an impact on the household's chances of avoiding poverty.

The effect of state transfers on the chances of avoiding poverty is in line with the average for all low-paid employees. Although these people will not be entitled to benefits related to having dependent children, they are likely to be older and therefore they or their partner may be in receipt of state pension.

TABLE 6. Avoiding poverty: low-paid lone mothers, UK 2000/1.

	All	Working 16+ hours
Avoiding poverty	%	%
Own market income	4	6
Partner's market income	0	0
Non means-tested benefits	9	12
Tax credits	25	40
Means-tested benefits	17	5
Others' income	19	20
Other household income	6	9
Remaining in poverty	20	8
Total	100	100
Unweighted base	(50)	(33)

Lone mothers

Lone mothers make up a relatively small proportion (6 per cent) of all low-paid women. This reflects their lower employment rates rather than any lower risk of low pay: many (27 per cent) of those lone mothers who are employed are in low-paid work. And those lone mothers who are low paid have a high risk of poverty, as Table 2 showed, with one in five in poor households. Table 6 shows that, on the basis of their own market income, lone mothers are rarely (just 4 per cent) able to avoid poverty. As might be expected, very few lone mothers work long hours and they tend to work shorter hours in their main jobs than other low-paid women, although they are just as likely to have two or more jobs.

As we would expect, tax credits and means-tested benefits have a much greater role in poverty avoidance for lone mothers than they do for other groups: all tax credits and benefits together help over half (51 per cent) of lone parents to avoid poverty. A further 19 per cent of lone parents rely on the market income of other adults in the household in order to avoid poverty. A third of lone mothers live with other adults and these people tend to be their grown-up children or, less often, their parents. As discussed before, low-paid employees may be less likely to receive equal benefit from income of other adults in the household compared with, for example, income from a partner. Other sources of household income also contribute more to poverty avoidance for lone parents than for other groups; this is probably due to maintenance payments from a former partner (but the data do not make it possible to tell for sure).

Table 6 also presents separately the results for the two-thirds of low-paid lone mothers who are working 16 hours or more per week and who are therefore entitled to in-work benefits and tax credits. The sample size is rather small so the results should be interpreted with caution, but they suggest a much lower poverty rate for this group. This appears to be mainly because of greater entitlement to tax credits, which are typically more generous than out-of-work benefits, but also because of more of an impact of own market income from working longer hours, and other sources of household income (which include maintenance payments).

Couples with children

Low-paid individuals in couples with children fare very differently depending upon whether they are male or female. The women, representing one in three (30 per cent) of all low-paid women, are very likely to have an employed partner (78 per cent) and be able to avoid poverty as a result (72 per cent), with 13 per cent remaining in poverty after all sources of income have been taken in to account. Although a relatively smaller group, the one in six low-paid men who have a partner and dependent children have a much higher risk of ending up poor (37 per cent). The low-paid men's partners are somewhat less likely to be employed (63 per cent) and the couple's combined market incomes can only help 38 per cent of these men and their households to avoid poverty, despite the fact that 40 per cent of these men work 50 or more hours per week in their main job. The much smaller impact on poverty avoidance of the couple's market income for low-paid men in couples with children (compared to the women) is partially offset by greater assistance from tax credits and benefits, with one in five of these men avoiding poverty due to state transfers. However, the tax credits only help 7 per cent of low-paid fathers in couples to avoid poverty, well below the equivalent figure for lone mothers, of 25 per cent.

Although the low-paid women in couples with children appear much less likely to be poor than the men, it is important to remember that these results assume that all sources of household income are shared such that every household

TABLE 7. Avoiding poverty: low-paid couples with children, UK 2000/1.

	Men	Women
Avoiding poverty	%	%
Own market income	11	< 1
Partner's market income	27	72
Non means-tested benefits	11	7
Tax credits	7	3
Means-tested benefits	3	0
Others' income	2	4
Other household income	2	0
Remaining in poverty	37	13
Total	100	100
Unweighted base	(94)	(276)

member enjoys the same standard of living. Given the evidence suggesting that this assumption is not always valid, it is noteworthy that the women in couples with children are the least able of any group to avoid poverty on the basis of their own market income, with less than 1 per cent being able to do so.

Role of multi-family households

The preceding analysis has shown that living with others is a key factor that enables low-paid people to avoid poverty. There is much evidence from previous research to show that two-earner couples are very much less likely to be poor than one-earner couples (Millar and Ridge, 2001, provide a summary) but our analysis also highlights the importance of other household members in preventing household poverty. This section therefore explores in more detail the issue of household composition and how this relates to poverty avoidance. There are two main reasons why this merits attention. First, while most poverty studies *calculate* poverty on a household basis (as we have done), the tendency is to *analyse* these results according to differences in family type. This approach therefore fails to bring out the influence on poverty rates of any individuals who are in a separate family unit within the same household. Secondly, the results we have presented above suggest that this omission is likely to matter in practice, with, for example, 30 per cent of low-paid employees dependent upon the market income of household members who are outside their own family unit to be able to avoid poverty.

Table 8 compares the household living arrangements of all employees and low-paid employees. About a third (34 per cent) of all employees live in a household with people who are in a different family unit; in other words, someone other than their partner and dependent children. For low-paid employees, the equivalent figure rises to over half (53 per cent). Not surprisingly, single people without dependent children are the most likely to be sharing households, usually

TABLE 8. Household composition by family type: all employees and low-paid employees, UK 2000/1.

	Single, no children	Single, with children	Couple, no children	Couple, with children	All
All employees	%	%	%	%	%
No other adults[1]	40	72	75	81	66
With other adults	60	28	25	19	34
Non-dependent children only	*3*	*19*	*20*	*16*	*13*
Parents only	*27*	*5*	*1*	*1*	*9*
Other only[2]	*12*	*1*	*3*	*2*	*5*
Mixed[3]	*18*	*2*	*1*	*1*	*6*
Unweighted base	(1,531)	(207)	(1,890)	(2,045)	(5,673)
Low-paid employees					
No other adults[1]	15	64	70	78	47
With other adults	85	36	30	22	53
Non-dependent children only	*2*	*22*	*24*	*17*	*12*
Parents only	*41*	*10*	*3*	*2*	*20*
Other only[2]	*10*	*0*	*2*	*2*	*5*
Mixed[3]	*31*	*4*	*1*	*1*	*15*
Unweighted base	(509)	(51)	(344)	(370)	(1,274)

Notes: [1]Apart from individual and partner, where there is a partner.
[2]Neither children nor parents e.g. sibling, grandparent or friend.
[3]Live with adults who are a mixture of non-dependent children, parents and other.

with their parents or a mixture of people (probably their parents plus grown-up siblings). Low-paid single people are much more likely to live with others than are all employed single people (85 per cent compared with 60 per cent). It is perhaps for this group of single people without children where analysing poverty just by family type is most misleading – it disguises the fact that so many of them actually live with other people upon whose income their poverty status is very heavily dependent.

Among employed lone mothers in general about 28 per cent are sharing a household, rising to 36 per cent of low-paid lone mothers. These households typically consist of the lone mother and her dependent and non-dependent children, although one in ten of the low-paid lone mothers are living with their parents. Couples with no dependent children include a substantial minority – a fifth of all employees and a quarter of low-paid employees – who have non-dependent children living with them. Couples with dependent children are the least likely to be living with others, which probably reflects a younger age profile. Hence, their higher risk of poverty may be partly because they have fewer earners and potential earners in the household.

Thus the analysis of household composition shows that living in multi-unit households is relatively common, especially among single people and lone mothers, and especially among low-paid people in these family types. This would

TABLE 9. Poverty rate by family type and whether in multi-family household: all low-paid employees, UK 2000/1.

	Single, no children	Single, with children	Couple, no children	Couple, with children	All
	%	%	%	%	%
Lives with own family only	26	18	8	20	16
Lives with other families	12	21	15	16	12
All	14	19	10	19	14
Unweighted base	(509)	(51)	(344)	(370)	(1,274)

suggest that poverty rates for low-paid people might systematically differ for different family types according to whether individuals live in multi-family households. Table 9 shows that sharing a household with other family units has the most dramatic effect on poverty rates for low-paid single people without dependent children. Their poverty risk is more than twice as high if they live alone (26 per cent) compared with sharing with others (12 per cent). Couples with dependent children also face a higher risk of poverty if they live alone (20 per cent) than if they live with others (16 per cent). This suggests that grown-up children still in the family home may be playing an important role in reducing poverty risks, either by directly contributing to household income or by facilitating parents' employment by taking on caring responsibilities for younger siblings. For couples without dependent children, however, the poverty risk is higher if they live with other adults (15 per cent) than if they live alone (8 per cent). This is probably because in this case they are subsidising their grown-up children's living standards. The same is true for lone parents, but the small sample of lone parents in our data makes it difficult to draw any strong conclusions about the implications of living with other families for their poverty rates.

Summary and discussion

The analysis presented here has explored how the risks of household poverty are mitigated for a vulnerable group: those individuals experiencing low hourly pay. Using data for the financial year 2000/01, we find that around 23 per cent of UK employees are low paid and, of these, 14 per cent are poor. We focus on understanding how the remainder, the other 86 per cent of the low paid, manage to avoid poverty.

In the introduction we highlighted three potential broad strategies for avoiding household poverty if paid a low hourly rate. The first was to work long hours or take on multiple jobs to boost one's own weekly market income sufficiently to earn above the poverty line amount. While this approach is successful for just over half of employees in general, it enables only 8 per cent of the low paid to avoid poverty. Turning to the contribution to household income from the market earnings of other household members, including one's partner and/or other adults outside one's own family but still within the same household, we find that this is much more important for low-paid employees than for employees as a whole. Whereas 62 per cent of the low paid manage to avoid poverty due to the market income of partners and other adults, this helps only 34 per cent of all employees in the same way. Finally, the third main approach to avoiding poverty was the contribution to household income from state transfers, including tax credits and means-tested and non-means-tested benefits. Helping 13 per cent of the low paid to avoid poverty, these prove to be slightly more important than the individual's own market income but are much less significant than the market income of partners and other adults.

When we examine how these findings vary for men and women across different family types, some substantial differences show up. Those who are single and have no dependents are the largest group among the low paid and have a relatively greater dependence upon the market income of other adults in the household, who are usually their parents. Low-paid people in childless couples have the lowest poverty risk. Whereas the men have a larger than average ability to avoid poverty due to their own market income, the women are more reliant on their partners. Of low-paid women, lone mothers are the most likely to be poor, mainly because of the below average impact on poverty of market income from themselves and any others in the household (23 per cent compared to the average of 70 per cent for all low-paid employees). To a significant extent, tax credits and benefits compensate for this, helping 61 per cent of low-paid lone parents to avoid poverty. There is some evidence that lone parents working at least 16 hours per week have considerably better chances of avoiding poverty, with own market income, tax credits and benefits and (probably) maintenance payments all appearing to contribute to the greater chances of avoiding poverty for this subgroup. Finally, low-paid people in couples with children differ greatly in their poverty risk, depending on whether they are male or female. Men are almost three times as likely to be poor as women in this group. The impact of partners' and others' market income on poverty avoidance for men (29 per cent) is much less than half that for low-paid employees on average (62 per cent). And, compared with lone parents, benefits and tax credits do not do as much to close this gap, enabling only 21 per cent to avoid poverty. Consequently, low-paid men in couples with dependent children are the group least able to avoid poverty.

One of the most striking findings arising from this analysis is the importance of market income from adults other than a partner for the low-paid employee's ability to avoid household poverty. These household members outside the low-paid employee's own family unit include parents, non-dependent children, friends and grown-up siblings. Their market income is found to be responsible for 30 per cent of the low paid being able to avoid poverty, which is nearly as large a contribution as the market income of partners (32 per cent) and double the impact of benefits and tax credits (13 per cent).

When we examined this phenomenon, we found that living in a household with adults who are not one's partner is very widespread among low-paid people (53 per cent) and even fairly common among employees as a whole (34 per cent). There is considerable variation across family types in both household sharing and household composition. Among the low paid, single people without dependent children are the most likely to live with other families (85 per cent), who tend to be their parents, but even low-paid people in couples with dependent children have more than a one in five chance of living with other families, most often their grown up children.

The poverty literature typically seeks to understand household poverty results on the basis of the individual's family type. Our findings suggest that failing to analyse the impact on poverty of household members outside the individual's own family is likely to represent an important omission. To explore this further we looked at how the poverty rates for each family type vary according to whether the individual shares the household with other families or not. It does indeed appear that poverty rates differ substantially depending on whether there are other adults in the household (other than a partner). Given that the income of these individuals is included in the calculation of household poverty this is perhaps quite self-evident, but nevertheless this has largely been ignored in the literature. While these results should be considered indicative rather than conclusive due to the use of only one year's data and rather small sample sizes, there appears to be much here which merits further investigation.

'Making work pay' is a complex policy goal (Bennett and Millar, 2005), which involves targeting people in various different ways, assessing income over different time periods (hourly wage rates, weekly pay levels, annual incomes), for different units of assessment (individual, family), and offering both transitional (at point of entry into work) and long-term (to sustain employment) support. The analysis presented here – which seeks to explore how income from different sources contributes to the poverty avoidance status of the household as a whole – shows that household composition is an important mediating factor and that protection from poverty very often depends on living with others who can also bring market income into the household.

In addition, the results have important bearings on several issues relating to the analysis of poverty. Firstly, they highlight that in practice as well as theory there is a discrepancy between government policies that assume that financial dependence is limited to the family unit, while poverty studies assume that income is shared between all members of the household. Following on from this, they therefore question the validity of the equal income-sharing assumption among *all* people living in the same household, even where this represents multiple family units, and point to the need for greater evidence on this matter. This therefore also raises a question mark about the validity of the standard approach of measuring poverty at the level of the household, rather than say the narrower family unit. Finally, they suggest that our understanding of poverty is likely to be significantly enhanced by examining results in light of the numbers and characteristics of all household members, not just those in the immediate family unit.

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Notes

1 See Millar and Gardiner (2004) for a discussion of the choice of definitions of low pay and poverty.

2 Our data are for 2000/1, and so precede the introduction of the new tax credits (working tax credit and child tax credit) in 2003.

3 We use data from the Family Expenditure Survey (ONS, 2001) for the financial year 2000/01 to analyse the sample of all employees aged 16 or above in the UK for whom current wage data are available; the low paid are defined to be those earning below two-thirds of median hourly gross wages. All low pay and poverty results have had grossing-up weights applied to adjust for differential non-response.

4 The poverty line is 60 per cent of median equivalised disposable household income before housing costs, where household income is the total received by all the people in the household and is defined to be the sum of: usual net earnings from employment, profit from self-employment, all social security benefits (including housing benefit), income from occupational and private pensions, any other investment income, maintenance payments, income from education grants, and the cash value of income-in-kind. Income is net of the following: income tax payments, national insurance contributions, council tax/domestic rates, contributions to occupational or personal pension schemes, maintenance and child support payments and parental contributions to students living away from home; negative incomes are set to zero. Incomes are equivalised to adjust for household size and composition using the McClement's equivalence scale. See Millar and Gardiner (2004) for further details.

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